

Improving Transparency in the Post-Pandemic Airline Industry

Jae Woon LEE

Assistant Professor, Faculty of Law
The Chinese University of Hong Kong

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- Since almost no airlines could survive without financial support amid the COVID-19 slump, airlines have been calling on governments for support.
- There is ongoing debate as to whether, to what extent, and how long governments should bail out the airline industry.
- Regardless of the debate, the diverse forms of bailouts at a wide range of scale have a profound effect on the ecosystem of the airline industry.

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Governments' financial support can be broadly categorized as follows:

- Loans and loan guarantees
- Equity acquisition
- Hybrids
- Wage subsidies
- Flight subsidies

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The WTO Agreement on Subsidies & Countervailing Measures (SCM)

- SCM disciplines the use of subsidies, and it regulates the actions countries can take to counter the effects of subsidies.
- But, SCM applies only subsidies on trade in goods and does not apply to subsidies to service (including airlines for their air services).

Airline Subsidies in the Chicago Convention

- Article 54 (Mandatory functions of Council)

The Council shall:

...

(i) Request, collect, examine and publish information relating to the advancement of air navigation and the operation of international air services, including information about the costs of operation and particulars of subsidies paid to airlines from public funds;

Airline Subsidies in Air Services Agreements (ASA)

- From 'fair and equal opportunity to operate' (since 1960s) to 'fair and equal opportunity to compete' (since 1990s)
→ From a balanced operation under equal circumstances to opportunity to compete.
- Nearly all ASAs do not have a subsidy clause but only the ambiguous 'fair and equal opportunity' clause.



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CART Recommendation 10

*Member States should consider appropriate extraordinary emergency measures to support financial viability and to maintain an adequate level of safe, secure and efficient operations, which should be inclusive, targeted, proportionate, **transparent**, temporary and consistent with ICAO's policies, while striking an appropriate balance among the respective interests without prejudice to **fair competition** and compromising safety, security and environmental performance.*

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Multilateral:

how ICAO's monitoring function could aid transparency

- One of the major problems with the government bailouts of airlines is the lack of transparency.
- Controversy about the facts is expected in the future.
- ICAO is the best-positioned organization to serve as a central repository for this information.
- Chicago Convention Art. 54 (i)

Bilateral: adding a subsidy-specific clause to ASAs

- Government negotiators should consider adding a subsidy-specific clause to ASAs.
- New developments:
EU-US (2007) / EU-Canada (2009) / ASEAN-China (2010) /
EU-Qatar (2019) / EU-ASEAN (2022)

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Concluding Remarks

- For both economic and noneconomic reasons, many governments cannot allow their major airlines to shut down.

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- Nevertheless, competition in the international aviation market can be distorted by the ongoing massive government bailouts.
- Governments should strike a balance between financial support to the airline industry and the need to maintain competition.

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- Nevertheless, competition in the international aviation market can be distorted by the ongoing massive government bailouts.
- Governments should strike a balance between financial support to the airline industry and the need to maintain competition.
- Government bailouts of airlines are not (and should not) be entirely unregulated.

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- For both economic and noneconomic reasons, many governments cannot allow their major airlines to shut down.
- Nevertheless, competition in the international aviation market can be distorted by the ongoing massive government bailouts.
- Governments should strike a balance between financial support to the airline industry and the need to maintain competition.
- Government bailouts of airlines are not (and should not) be entirely unregulated.
- Rule-based approaches with institutional mechanisms should be implemented to maintain fair competition in international air transport.

Thank you!

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jaewoon.lee@cuhk.edu.hk

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